

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MADISON COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Madison County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Sheriff had total revenues of \$1,588,187, which was a \$171,314 increase from the prior year. Except for reimbursed expenses and fiscal court contributions in the amount of \$724,813, the Sheriff paid 25% of revenues to the Madison County Fiscal Court in the amount of \$201,270. This was an increase of \$30,592 from the prior year. In addition, expenditures increased by \$16,477.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil Cochran, Madison County Sheriff
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2005. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil Cochran, Madison County Sheriff
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 31, 2006

MADISON COUNTY
 CECIL COCHRAN, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	356
State Grants			22,000
State - KLEFPF			54,336
State Fees for Services			
Finance and Administration Cabinet	\$	44,187	
Cabinet for Human Resources		5,541	
Sheriff's Security Service		103,248	
Other		<u>3,688</u>	156,664
Circuit Court Clerk			7,963
Fiscal Court			219,208
County Clerk			6,934
Commission on Taxes			802,709
Fees Collected for Services:			
Auto Inspections		26,142	
Accident and Police Reports		234	
Serving Papers		111,638	
Carrying Concealed Deadly Weapon Permits		36,825	
Sheriff's Advertising Fees		9,752	
Tax - Sheriff 10% Add On		<u>113,217</u>	297,808
Other Revenues:			
Miscellaneous		7,589	
Interest Earned		<u>12,620</u>	<u>20,209</u>
Total Revenues			1,588,187

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
CECIL COCHRAN, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures

Payments to State:

Carrying Concealed Deadly Weapon Permits \$ 23,240

Payments Made To County:

Ordinance Fees 30,510

Other Expenditures:

Miscellaneous 50

Court Execution 2,871

Total Expenditures \$ 56,671

Net Revenues 1,531,516

Payments to State Treasurer:

75% Operating Fund 1,328,622

25% County Fund 201,270 1,529,892

Balance Due at Completion of Audit \$ 1,624

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 CECIL COCHRAN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2005

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2005	\$ (104,949)	\$	\$ (104,949)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,328,622		1,328,622
Fees Paid to State - County Funds (25%)		201,270	201,270
	<u>1,223,673</u>	<u>201,270</u>	<u>1,424,943</u>
Total Funds Available			
<u>Expenditures</u>			
Madison County Fiscal Court		201,270	201,270
Personnel Services-			
Sheriff's Salary	86,234		86,234
Deputies' Salaries	702,979		702,979
Employee Benefits-			
Employer's Share Social Security	59,427		59,427
Employer's Share Retirement	151,597		151,597
Employer's Paid Health Insurance	49,957		49,957
Contracted Services-			
Advertising	534		534
Materials and Supplies-			
Office Supplies	6,622		6,622
Uniforms	2,661		2,661
Miscellaneous	7,276		7,276
Other Charges-			
Unemployment Insurance	3,722		3,722
Dues	1,675		1,675
Postage	2,079		2,079
Radio Equipment & Maintenance	1,800		1,800
Equipment	5,131		5,131
Other	6,147		6,147

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 CECIL COCHRAN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Auto Expenses-			
Gasoline	\$ 47,029	\$	\$ 47,029
Maintenance and Repairs	12,345		12,345
Insurance	27		27
Capital Outlay-			
Vehicle	65,651		65,651
Total Expenditures	1,212,893	201,270	1,414,163
Fund Balance - December 31, 2005	\$ 10,780	\$ 0	\$ 10,780

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
(Continued)

Note 4. Forfeited Federal Funds Account

The Madison County Sheriff keeps a Forfeited Federal Funds Account. These funds are used in law-enforcement activities against drugs and are not considered in determining excess fees. As of January 1, 2005, the Sheriff had a balance of \$2,574 in the Forfeited Federal Funds Account. In 2005, the Sheriff received \$12,832 in the Forfeited Federal Funds Account. There were \$1,729 in expenditures. This left a balance as of December 31, 2005 of \$13,677.

Note 5. Grant Funds Account

The Madison County Sheriff maintains a Grant Funds Account for grant receipts. The balance as of January 1, 2005 was \$2,216. Revenues for 2005 totaled \$1 and expenditures totaled \$2,217, leaving a balance of \$0 as of December 31, 2005.

Note 6. Special Account

The Madison County Sheriff maintains a Special Account for the solicitation of donations toward department calendar purchases for the public and for supporting community service programs. The balance as of January 1, 2005 totaled \$9,819. Revenues for 2005 totaled \$4,029 and expenditures totaled \$7,984, leaving a balance of \$5,864 as of December 31, 2005.

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COMMENT AND RECOMMENDATION

MADISON COUNTY
CECIL COCHRAN, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2005

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During the review of internal controls, it was noted that the Madison County Sheriff's office lacks an adequate segregation of duties. Due to the small size in office staff and budget restrictions, the office has limited options for establishing an adequate segregation of duties. We recommend the Sheriff implement the following compensating controls to offset this internal control weakness:

These controls could include the Sheriff performing surprise cash counts, reconciling monthly reports to supporting documentation including the receipts and disbursements ledgers, and examining monthly bank reconciliations performed by the bookkeeper. The Sheriff should document these duties performed by initialing the source document.

Sheriff's Response: None.

PRIOR YEAR:

The Sheriff Has A Lack Of Adequate Segregation Of Duties - This comment has not been corrected and is repeated above.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil Cochran, Madison County Sheriff
Members of the Madison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated August 31, 2006. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Sheriff's financial statements for the year ended December 31, 2005, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 31, 2006

